



City of Santa Barbara
Airport Department

DATE: July 16, 2014
TO: Airport Commission
FROM: Hazel Johns, Airport Director *HJ*
SUBJECT: FY2015 Airport Commercial/Industrial Lease Rates

RECOMMENDATION: That Airport Commission approve the proposed Fiscal Year 2015 Commercial/Industrial Rental Rates, for land and buildings at the Santa Barbara Airport.

DISCUSSION:

Background

The Business & Property Management Program is charged with maintaining the Airport's self-sufficiency and strong financial position by prudent fiscal management of its fixed assets.

The Division currently manages 327,575 square feet of buildings and 4,835,481 square feet of land including 162 tenants and subtenants and 192 agreements, not including taxicabs. These tenants include:

- Leases, licenses, and concession agreements associated with the operation of commercial air service (airlines, rental cars, restaurant, gift shop, TSA, shuttle services, parking, ATM machine etc.)
- General aviation agreements (FBOs, T-hangars, tie-downs, flight schools, maintenance & avionics shops, freight carriers, charter air services, and aircraft washing services.)
- Commercial/Industrial leases (offices, research & development, light industrial and storage spaces).

The average occupancy rate for land in 2014 was 98.6%, a decrease of .1% from the 2013 average of 98.7%. The average rate for buildings was 93.6% a decrease of 2.5% from the 2013 average of 96.1%. The reason for the decrease in leased buildings was the vacancies that occurred in the buildings formerly occupied by Stratman Aero Service, Woolever Tire Shop, and the Elephant Bar. The Stratman and Woolever spaces will be under lease by August 1, 2014, but no acceptable tenant has been found for the Elephant Bar property, to date.

Most potential tenants continue to learn of Airport vacancies by word of mouth, posted vacancy signs, Santa Barbara City TV, or the Airport website flysba.com. It is the intention of the

Business & Properties Division to increase newspaper advertising, particularly for vacancies existing for several months. Fifty-five new agreements with new and existing tenants were negotiated in CY2013.

At this time, the existing building vacancies consist of one 800 square foot office north of Hollister Avenue, the Elephant Bar, one airside access only office of 380 square feet, and an airside storage space at the end of T-Hangar 7.

The existing land vacancies consist of five yards ranging from 27,456 square feet to 2,909 square feet.

All the City T-hangars and tie-downs are currently leased.

Effects of the Current State of the Economy

The UCSB Economic Forecast and other reputable sources have predicted that the economy will improve at the rate of 2% per year, but not make significant gains until 2018. However, along with the rest of Goleta, Airport tenants showed signs of recovery in 2013. The number of delinquent tenants has decreased to one. The tenant is a long-haul trucker who is frequently on the road. The account is always paid, but is sometimes late.

Rental Rate Adjustments

Historically, Airport month-to-month leases call for a minimum 3% maximum 8% annual CPI increase based upon the monthly index published by the Bureau of Labor Statistics for the Los Angeles-Riverside-Orange County area. A comparison of the average CPI adjustment for the past ten years, five years and 2013 are shown below.

CY2003 - 2013	CY2008 - 2013	CY2013
2.3	2.1	0.9

Current rental adjustments are being made at the 3% minimum.

Market Analysis

A market analysis was conducted by examining newspaper advertisements for Goleta Commercial/Industrial properties, the Radius Group bulletins, monthly and quarterly reports, and the UCSB Economic Forecast.

The current rental market in Goleta was evaluated over a six week period from April 27 to June 1, 2014. During this period, two office vacancies that did not exceed the maximum square footage for an Airport building came on the market. The industrial/R&D sector had no vacancies. Industrial vacancies in the Goleta area are at an all-time low of 1.4% according the UCSB Economic Forecast for 2014. The Airport's industrial spaces are 100% leased at this time. The highest proposed rental rate for office space advertised in the Santa Barbara News Press was \$1.43. A comparison of average Airport rates to Goleta rates is shown below.

	Goleta		Airport
	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<i>UCSB</i>	<i>News Press</i>	
Office:	\$1.72	\$1.41	\$1.51*
Industrial/R&D	\$1.15	no comps	\$1.12
Warehouse	no comps	\$1.15*	\$.67
Land	no comps	\$.29	\$.15
			\$.19

**Only 605 sq. ft.*

Rental Rate Analysis

The demand for storage lots has decreased. Lots of 5,000 square feet and over are not currently as marketable as lots of 3,000 feet or less and stay vacant longer than they did prior to the beginning of the recession, when it was not unusual for a company to maintain satellite yards in communities where they did business, but did not have their offices.

Based upon Staff's analysis of all the information provided, and considering the relative condition and age of Airport buildings, the Airport's rental rates are at market and do not need adjustment. The last adjustment to the rental rates was July 1, 2013.

Proposed Rates for FY 2015

Buildings:

Office	\$1.35 to \$1.70/ square foot / month
Industrial / R & D/ Shop / Assembly	\$.95 to \$1.50/square foot / month
Storage / Warehouse	\$.65 to \$.85/ square foot / month

Land:

Parking Spaces:	\$.13 to \$.30/ square foot / month
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\$14.00/space/month

FY2015 Budget

The Airport's budget is established by first projecting revenue from the tenant leases, and user fees. Budget projections are also included in the Airport's cash flow forecast. The projections do take into account possible vacant properties and potential development, so there is some flexibility in the estimates. Commercial/Industrial revenues for the FY2015 budget, including utilities and permits, were estimated at \$4,545,175 based on projected FY2014 Commercial/Industrial revenue of \$4,190,885.